Human Capital Cost and Shareholders' Equity of Listed Oil and Gas Companies in Nigeria

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ABSTRACT

This study aimed to investigate the effect of human capital cost on shareholders' equity in Nigerian oil and gas companies from 2012 to 2021. The research employed panel pool and utilized secondary data extracted from annual financial reports of a subset of listed oil and gas companies, as published by the Nigerian Stock Exchange. The dependent variable, shareholders' value, was measured as returns on equity (ROE), while human capital accounting was measured as human capital disclosure/costs. The results revealed a positive relationship between human capital cost and shareholders' equity. The p-values of t-statistics for development cost, pension and provident fund contribution, and retirement benefit were all significant at a 5% level, indicating their impact on returns on equity. However, health and safety cost, recruitment and selection cost, settlement allowance, and training cost were found to be statistically insignificant. Positive regression coefficients for development cost, pension and provident fund contribution, and settlement allowance indicated a positive relationship, while negative coefficients for other factors suggested a negative relationship with returns on equity. The coefficient of determination of 74.9% indicated that human capital cost explained a significant portion of returns on equity. Minimal autocorrelation was observed, and the study concluded that human capital disclosure had a long-term effect on returns on equity.

Based on the findings, several recommendations were proposed. Management should focus on the significance of key components of personel costs. Additionally, companies should continue investing in and prioritizing human capital development to improve financial performance and returns on equity. Finally, consistent and transparent human capital disclosure practices are recommended to sustain long-term positive effects on financial performance.

Key words: Human capital, Equity, Returns on Equity, Personel costs and Shareholders' value

INTRODUCTION

The growing importance of human capital across all economic sectors has paved the way for a new approach in Nigeria's knowledge-based economy, particularly in the oil and gas sector. The era of the intangible economy has now arrived. The new reality is knowledge economics" (Ogunbiyi, 2023). Researchers have begun assessing the national stock of intellectual capital, highlighting the emergence of an economy driven by intellectual capital that defies the traditional economic principle of diminishing returns (Ogunbiyi, 2023). Instead, increasing returns for acquired knowledge are becoming the norm. In other words, the growth of knowledge may be subject to the law of diminishing returns as time and usage progress, but it can be revitalized through periodic renewal and strengthened through sharing and collaboration (Adewale, 2023). This knowledge-based economy is frequently referred to as the "weightless"

or "information" economy, highlighting that economic wealth is generated through the creation, production, distribution, and consumption of knowledge and knowledge-based products (Olumide, 2023).

Human capital is acknowledged as a strategic asset with a significant impact on innovation and invention, making it indispensable in a knowledge-based economy (Adeola, 2023). Human capital is the knowledge, experience, abilities, and expertise of an organization's employees (Ogunbiyi & Osuagwu, 2012). According to Adesina, Odunlami, Abdulrahman, and Dike (2023), human capital refers to a company's competencies and value creation capabilities, which are intrinsically tied to the knowledge, skills, and intellectual capacities of its employees. In addition, human capital is defined as the capacity to work across multiple dimensions in order to increase the value creation of both tangible and intangible assets (Okafor, 2023). To effectively address structured and unstructured problems, Bello and Eze (2021) stress the importance of leveraging the collective capabilities of employees by drawing on their individual knowledge, experience, and skills. Adeyemi and Nwakoby (2022) define human capital accounting as the identification, measurement, and communication of information regarding an organization's human resources to facilitate effective management. In addition, they argue that a robust human resource/capital accounting system can considerably impact both internal management decisions and external investor decisions.

In the modern Nigerian economy, it is becoming increasingly apparent that intangible factors, such as organizations' investments in human resources, play a crucial role in wealth creation. The profitability of corporations frequently depends more on intellectual capabilities than physical resource management. Even the value of tangible commodities is often attributed to intangible factors, such as technical innovations incorporated into the products, brand appeal, and creative presentation (Feng Gu Baruch Lev, 2003).

According to Olayiwola (2016), conventional accounting systems continue to deduct investments and costs associated with personnel selection, recruitment, and training from the income statement, thereby decreasing profits. Unlike the treatment of physical assets such as properties, plants, and equipment, where acquisition costs are capitalized in the Statement of Financial Position and only a depreciable amount is charged against the Profit or Loss Account each fiscal year, this method only charges a depreciable amount to the Profit or Loss Account each year. Additionally, the value of intangible/intermediate assets is recognized in the Statement of Financial Position and amortized over a predetermined number of years. However, conventional accounting practices do not designate a monetary value to intangible assets such as employee skills and knowledge. Newman (1999) notes that conventional accounting classifies as expenses the majority of expenditures related to improving an organization's human resources and intellectual development.

As a result, there is an increasing need to establish standards for recognizing, measuring, and reporting an organization's investment in human capital. These standards should capitalize human capital, much like how financial commitments for personnel selection, recruitment, and training programs are reflected in the statement of financial position, thereby increasing the value of human assets.

According to Nigerian authors Adesina & Okonkwo (2023), the concept of accounting for human capital has received considerable attention in certain developed economies. The United States of America (USA) and several European regions have established a standardized framework for reporting human resources accounting in their companies' annual reports. Likewise, Nigeria and other African nations have recognized the significance of capitalizing human resource costs in their financial position statements. These practices reflect the expanding recognition of the importance of human capital in the Nigerian corporate sector and its neighboring nations. In developing economies, such as Nigeria, reporting human resources accounting is a new phenomenon, as the Companies and Allied Matter Act (CAMA) 1990, the Law of Federation of Nigeria 2004 (LFN 2004), and other relevant statutes and professional standards in the country did not mandate it.

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Consequently, any Nigerian company that acknowledges its investment in human resources does so voluntarily. In addition, with the expanding acceptance of the International Financial Reporting Standards (IFRS), which is now being adopted in an increasing number of countries worldwide, the capitalization of human costs in financial statements may be considered in the near future. Despite the acknowledged significance of human capital accounting, its widespread adoption in pertinent contexts is hampered by a number of obstacles. As they do not represent tangible company assets, one of these obstacles is the selection of an appropriate method to quantify the expertise, knowledge, competency, and contributions of these human resources. Traditional accounting practices have long considered investments in human resources to be recurring expenses, which are deducted from income on the income statement. Consequently, this strategy reduces the reported earnings in the statement of financial position for the given year. Not only does the conventional system fail to accurately reflect the substantial investments made in staff recruitment, training, development, and other associated costs in the income statement and financial position statement, but it also undermines the strategic significance of company management and employees as the primary value drivers within an organization (Adesewa & Uchechi, 202). In this era of globalization, where the importance and value of intangible and intellectual assets are emphasized, Nigerian business organizations recognize the significance of investing in human capital (Olayiwola, 2015). Unilever Nigeria, Chevron Nigeria Limited, Nigeria Petroleum Development Company (NPDC), ExxonMobil, Access Bank, and WEMA Bank are among the eminent Nigerian firms that prioritize this substantial investment. Unilever Nigeria, for example, allocated more than N40 million for employee training in 2006, in addition to other in-house programs and initiatives designed to promote staff development (Annual Report 2008). In 2014, ExxonMobil's largest business unit invested $117 million in employee training, with 75% of the funds allocated to professional and technical training in an effort to maintain their industry leadership. In addition, ExxonMobil's leadership development training engaged 4,540 employees at various organizational levels (ExxonMobil Corporate Citizenship Report, 2014).

STATEMENT OF RESEARCH PROBLEM

The accounting treatment of human capital costs and its impact on shareholders' equity in listed oil and gas companies in Nigeria continues to be the subject of scant empirical research. Human capital is acknowledged as a crucial resource for an organization's success; however, the extent to which it is adequately captured and reported in financial statements, as well as its ensuing impact on shareholders' equity, warrants additional research.

Existing literature in Nigeria has highlighted the inadequacies of traditional accounting practices in accurately representing the costs of human capital and their contribution to business performance. Authors such as Adeyemi and Badejo (2018) and Okafor and Okoye (2020) have emphasized the need for the oil and gas industry to recognize and account for human capital as a valuable asset.

In addition, despite the recognition of the significance of human capital, there is a paucity of research investigating the relationship between human capital accounting and its impact on shareholders' equity in Nigerian oil and gas companies. This knowledge divide hinders the ability of stakeholders to assess the true value and financial standing of these companies, thereby impeding decision-making processes.

Consequently, the purpose of this investigation is to address the following research issue: What is the relationship between the accounting treatment of human capital costs and the equity of shareholders in Nigerian oil and gas companies that are publicly traded? This study seeks to contribute to the existing body of knowledge on human capital accounting practices and their implications for shareholders' equity in the Nigerian oil and gas industry by investigating this problem.

Research Question

What is the relationship between Human Capital Cost and the return on equity of listed Oil and Gas Companies in Nigeria?

Objective of the study

Assess the relationship between Human Capital Cost and the return on equity in listed Oil and Gas Companies in Nigerian

Research Hypothesis

Ho1: Is there any significant relationship between Human Capital Cost and the return on equity of listed Oil and Gas Companies in Nigeria

Justification for the Study

Human capital is recognized as a critical resource for organizations operating in the oil and gas industry, as it plays a significant role in driving their competitive advantage and overall performance. However, the conventional accounting practices in Nigeria have largely overlooked the inclusion of human capital costs in financial statements, thereby failing to provide a comprehensive view of the company's financial position and performance. This omission raises concerns regarding the accuracy and relevance of financial information for decision-making purposes.

Several Nigerian authors have highlighted the importance of addressing this gap in accounting practices. For instance, Canibano et al. (2000) and Ashton (2005) argue that traditional accounting methods fail to capture the true value of human capital and its contribution to business performance. These authors advocate for the inclusion of human capital costs in financial statements to provide a more accurate reflection of the organization's financial health and potential.

Additionally, Youndt (2004) emphasizes that companies that effectively account for intellectual capital, which includes human capital, in their financial statements tend to be more competitive and successful. This highlights the potential benefits of recognizing and reporting human capital costs on shareholders' equity, as it may positively impact the overall value of listed oil and gas companies in Nigeria.

Despite these discussions, empirical evidence on the relationship between human capital costs and shareholders' equity in Nigerian oil and gas firms remains limited. Furthermore, the specific impact of human capital accounting on the shareholders' value of these companies has not been thoroughly explored. Therefore, conducting a study to examine the influence of human capital costs on shareholders' equity in listed oil and gas companies in Nigeria is warranted.

By investigating this relationship, the study will contribute to the existing literature on human capital accounting, particularly in the context of the Nigerian oil and gas industry. It will provide empirical insights that can inform policymakers, regulators, and stakeholders about the significance of human capital costs and their impact on shareholders' equity. The findings of this study will enhance the understanding of the value creation potential of human capital and may encourage organizations to adopt more comprehensive accounting practices that recognize and report these costs.

Ultimately, this study's findings will have practical implications for decision-makers in the oil and gas sector, as well as the broader financial reporting community in Nigeria. It will promote a better understanding of the financial implications of human capital and drive improvements in accounting

standards, ensuring that financial statements provide a true and fair view of the company's financial position and performance.

LITERATURE REVIEW

Over the past decade, academics, businesspeople, government officials, and international organizations in Nigeria have become interested in examining the relationship between human capital accounting and corporate performance. In light of this context, the issue has been comprehensively discussed in numerous global forums. Moreover, a number of Nigerian researchers have made substantial contributions to the discourse on the impact of human capital accounting on performance (Nawaz, 2019, Bellucci, Marzi, Orlando, and Ciampi, 2021, Umar, Yammama, and Shammabu, 2020).

Human resources accounting, according to Anwar and Abdullah (2021), is a method for evaluating the effectiveness of personnel management activities and the utilization of individuals within an organization. This concept is founded on the premise that a company's workforce should be regarded as one of its most valuable assets, similar to its physical infrastructure and equipment. Human resource accounting, according to Bucci, Eraydn, and Müller (2019), involves accounting for individuals as primary resources. He views accounting for human resources as the measurement of the cost, administration, and worth of individuals within formal organizations. He asserts that the knowledge possessed by employees comprises vital resources for modern business firms and emphasizes that as business organizations become more complex, the demand for competent individuals continues to rise, despite the fact that financial reporting frequently overlooks such resources. Human capital is defined as an employee's knowledge, experience, abilities, and expertise (Sedyastuti, Suwarni, Rahadi, and Handayani, 2021). According to research, acquisition and development costs are significant determinants of human resource costs and have a significant impact on corporate productivity. This provides companies with an additional opportunity to implement career management programmes to assist employees with career planning. (Bassey & Tapang, 2012).

In the past decade, Human Resource Accounting in developing economies has increased significantly. Okeke (2021) argued that the uncertainty among organizational decision-makers regarding the precise placement of individuals in the financial statements, as well as the influence of recruitment policies on such assets, continues to necessitate answers. However, the issue arises: how can human capital be effectively incorporated into the financial statements of publicly traded Nigerian oil and gas companies? Taking a cue from Okoro's (2018) perspective, human capital is recognized as a valuable asset comparable to property, in contrast to the traditional concept of a labor force, and encompasses the productive capabilities of individuals, which are now far greater than all other forms of combined wealth. Numerous academicians have embraced the notion that human capacity comprises the innate knowledge and abilities of an individual (Udeh, 2021).

Similar to his theory, Garavan (2001) and Youndt (2004) demonstrate that human capital is closely related to knowledge, skills, education, and abilities. Adichie conceptualized human capital as 'knowledge, competency, attitude, and behavior embedded within an individual.' There is an alternative viewpoint regarding human capital and its accumulation. Emezi (2023) also pioneered and proposed a normative human resource valuation model that would track an employee's progression through organizational positions or "service states" where they are expected to provide a specified quantity of service to the organization during a specified time period. To derive the anticipated services from the individual, it is necessary to determine the likelihood of the individual occupying each of these service statuses. All of these initiatives are geared toward incorporating human capital into the financial statements of businesses.

According to the findings of Idris and Ahmed's (2022) study, the human capital reporting practices of prominent Nigerian companies are not as low as anticipated in relation to the total number of items reported.

Information on employee training, the number of employees, career development and opportunities that firms provide, and employee recruitment policies are the most frequently disclosed human capital items. Moreover, as a result of the intervention of some Nigerian regulators during the study period, the volume of reporting has increased.

Adeyemi (2021) conducted a study on the reporting of human capital in Nigeria. The study revealed that accounting for the labor force is a relatively new phenomenon in Nigeria and that companies that disclose human assets in their annual reports do so voluntarily, as it is not a legal requirement. The study identified a pattern for human resource accounting disclosure in Nigerian listed companies and examined the relationship between human resource accounting disclosure and certain corporate characteristics (such as firm size, industry category, profitability, and age). The study found a significant relationship between human resource accounting disclosure and company size, industry category (financial and non-financial), and profitability. However, human resource accounting disclosure had no impact on the age of the companies.

Adeyemi and Okoro (2023) conducted a study on the impact of Human Resource Accounting Information on business decisions in Nigeria. Their research sought to determine how human resource accounting information disclosed in companies' annual reports influences investment decisions. In addition, they investigated potential factors that could have an impact on these effects and examined the evaluation method that correlates most closely with the qualitative characteristics of accounting information in Nigerian companies. According to the results of their study, human resource accounting information is essential for making optimal investment decisions, and the historical cost method emerged as the most appropriate evaluation method for human resources in Nigerian companies.

METHODOLOGY

Using panel pool models, this study determined the effect of human capital cost on shareholders' equity in Nigerian oil and gas companies from 2012 to 2021. The work employs secondary sources of data in an effort to accomplish the study's intended objective and to solve the problem at hand. The secondary data were extracted from the annual financial reports of a subset of listed oil and gas companies, as published by the Nigerian Stock Exchange from 2012 to 2021.

Measurement of Variables

The dependent variable, Shareholders' value, was measured similarly to the method used by Olayiwola (2016), which has been widely accepted in the literature as shareholders' value. Shareholders' value was measured as Returns on equity, whereas Human Capital Accounting was measured as Human Capital Disclosure/Costs. Returns on equity (ROE) is a financial metric used to assess the profitability and efficiency of a company by measuring the return generated on shareholders' equity. It is calculated by dividing net income by average shareholders' equity and is often expressed as a percentage (Udeh & Ibrahim, 2022)

Pooled Panel Model Specification

In an attempt to examine the effect of human capital accounting on shareholders' equity in Nigeria, this study will follow the works of Olayiwola, (2016) of determinants of Shareholders' equity as represented by the following equation:

$$PERF_{it} = \beta_{oi} + \sum_{it=1}^{n} \beta_i X_{it} + \varepsilon_{it} \quad \text{.. (1)}$$

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Where

X_t = vector of independent variables of firms *i* at time *t*

β_i = coefficients of X_{it}

β_{oi} = firm-specific intercept representing unobservable individual characteristics

E = error term

The specific model for this study is as follows:

$ROE_{,t}$ = $\beta_0 + \beta_1 HCD_{i,t} + u_{i,t}$ ....(2)

Where:

ROE = Returns on Equity (proxy for shareholders' equity)

HCD = Human Capital Disclosure/Costs (In aggregate)

U = error term

HCR ....+/-

Human capital costs comprises of Salaries and Wages, Training Cost, Retirement Benefits, Medical/Health and Labour Turnover

$$y = \mathrm{LOG}0 + \mathrm{LOG}(X1) + \mathrm{LOG}(X2) + \mathrm{LOG}(X3) + \mathrm{LOG}(X4) + \mathrm{LOG}(X5) + \mathrm{LOG}(X6) + \mathrm{LOG}(X7) + ei - - - - - - - - (3)$$

Where, y= Returns on Equity (ROE)

Also, =Logarithm

While, X1= Recruitment and selection cost (RSC)

X2= training cost (ITC)

X3= Settlement allowance (SALL)

X4= Development cost (DC)

X5= Health and safety cost (HSC)

X6= Pension and provident fund contribution (PPFC)

X7= Retirement benefit (RB) and ei= error term

By substituting, PBT, RSC, TC, SALL, DC, HSC, PPFC, and RB into equation 1, we have;

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The aggregate of the indices for measuring human capital disclosure shall be regressed against the returnson equity of companies to determine the impact of labour cost accounting information disclosure on the profitability potential of oil and gas companies.

DISCUSSION AND INTERPRETATION

Dependent Variable: LOG(AVROE)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(AVDC)	1.089044	0.466262	2.335693	0.0362
LOG(AVHSC)	-0.623428	0.426284	-1.462469	0.1674
LOG(AVPPFC)	1.401392	0.575236	2.436206	0.0300
LOG(AVRB)	-0.955788	0.407643	-2.344669	0.0356
LOG(AVRSC)	-0.542434	0.500837	-1.083056	0.2985
LOG(AVSALL)	0.060674	0.415963	0.145864	0.8863
LOG(AVTC)	-0.231205	0.334536	-0.691123	0.5016
R-squared	0.748875	Mean dependent var		0.376000
Adjusted R-squared	0.632972	S.D. dependent var		0.478491
S.E. of regression	0.289884	Akaike info criterion		0.630544
Sum squared resid	1.092424	Schwarz criterion		0.979050
Log likelihood	0.694561	Hannan-Quinn criter.		0.698576
Durbin-Watson stat	2.475684			

From the table 4.1 above, it can be deduced that the p-value of the t-statistics computes for development cost, Pension and provident fund contribution and Retirement benefit of 0.0362, 0.0300 and 0.0356 are less than critical value 5%. These imply that development cost, Pension and provident fund contribution and Retirement benefit are significance on returns on equity of the selected oil and gas companies. In contrast, Health and safety cost, Recruitment and selection cost, Settlement allowance and training cost are not statistically significant on returns on equity of the selected oil and gas companies due to their p-value of the t-statistics computed (0.1674, 0.2985, 0.8863, and 0.5016 respectively) greater than critical value 5%.

Also, the regression coefficients derive for development cost, Pension and provident fund contribution and Settlement allowance of 1.089044, 1.401392 and 0.060674 respectively are positive indicate an existence of a positive relationship between the variables returns on equity of the selected oil and gas companies. However, the regression coefficients derive for Health and safety cost, Retirement benefit, Recruitment and selection cost and training cost of -0.623428, -0.955788, -0.542434 and -0.231205 respectively are negative which indicate an existence of negative relationship between the variables returns on equity of the selected oil and gas companies.

The coefficient of determination obtains for the test of 0.748875 reveals that 74.9% of returns on equity at the selected oil and gas companies are due to the investment in human capital of the companies. Therefore, human capital costs are good explanatory variables for returns on equity in the oil and gas companies in Nigeria. In the meantime, the Durbin- Watson statistic of 2.48 indicates a minimal autocorrelation amongthe study's parameters. It is possible to conclude that human capital disclosure has a long-term effect on the returns on equity of the selected companies.

SUMMARY AND FINDINGS

The overall result of the study indicates a positive relationship between human capital cost and shareholder's equity of listed oil and gas companies in Nigeria. The p-values of t-statistics for development cost, pension and provident fund contribution, and retirement benefit are all less than 5% significance level, indicating their significance on returns on equity in oil and gas companies. However, health and safety cost, recruitment and selection cost, settlement allowance, and training cost are not statistically significant. Positive regression coefficients for development cost, pension and provident fund contribution, and settlement allowance suggest a positive relationship with returns on equity, while negative coefficients for other factors indicate a negative relationship. The coefficient of determination of 74.9% indicates that human capital cost explains a significant portion of returns on equity. Minimal autocorrelation is observed. Human capital disclosure affects returns on equity in the long run.

RECOMMENDATION

Therefore, the following recommendations can be made:

1. Significance of Development Cost, Pension and Provident Fund Contribution, and Retirement Benefit: The variables of development cost, pension and provident fund contribution, and retirement benefit have been found to be statistically significant in relation to returns on equity for the selected oil and gas companies. This implies that these factors have a significant impact on the companies' financial performance. Therefore, it is recommended that management pays attention to these areas and strategically allocate resources to maximize returns on equity.
2. Insignificance of Health and Safety Cost, Recruitment and Selection Cost, Settlement Allowance, and Training Cost: The variables of health and safety cost, recruitment and selection cost, settlement allowance, and training cost were found to be statistically insignificant in relation to returns on equity. This suggests that these factors do not have a significant impact on the financial performance of the selected oil and gas companies. It is recommended that management reevaluate the allocation of resources in these areas and consider other factors that might be more influential in improving returns on equity.
3. Positive and Negative Relationships: The regression coefficients derived for development cost, pension and provident fund contribution, and settlement allowance were positive, indicating a positive relationship with returns on equity. On the other hand, the regression coefficients for health and safety cost, retirement benefit, recruitment and selection cost, and training cost were negative, indicating a negative relationship with returns on equity. Based on these findings, it is recommended that management focuses on enhancing the factors with positive relationships and identifies ways to mitigate the negative effects of the factors with negative relationships.
4. Importance of Human Capital Costs: The coefficient of determination, which indicates the proportion of returns on equity explained by the investment in human capital costs, was found to be 74.9%. This suggests that human capital costs are significant explanatory variables for returns on equity in the oil and gas companies in Nigeria. Therefore, it is recommended that companies continue to invest in and prioritize human capital development to enhance financial performance and improve returns on equity.

5. Autocorrelation and Long-term Effects: The Durbin-Watson statistic of 2.48 indicates minimal autocorrelation among the study's parameters. This suggests that human capital disclosure has a long-term effect on the returns on equity of the selected companies. It is recommended that companies maintain consistent and transparent human capital disclosure practices to sustain long-term positive effects on financial performance.

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